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31 October 1977

MEMORANDUM FOR: Chairman, ICIS Task Force

K1A FROM: [REDACTED]

ICIS Task Force  
Logistics Representative

SUBJECT: ICIS Discussion Topics (AIUO)

1. (U) This memorandum is written to surface certain specific problems which I believe worthy of discussion during our deliberations. Problems are identified by brief titles heading paragraphs which include skeletal narrative explanations.

2. (U) Organization, Mission and Staffing of the Office of Logistics Security Staff (OL/SS)

The Chief of the OL/SS has requested that the role and responsibility of his staff be reviewed to determine whether realignment of functions is in order. He also has recommended that his staff be augmented. His memorandum, along with a response from the Director of Logistics, is included for ICIS consideration as Attachment 1. II

3. (S) Staffing - OGC

Mr. Blake has stated in paragraph 3(c) of his 16 September 1977 memorandum that "Statistical analyses should be undertaken to validate if the distribution of manpower for the three functions involved in the three different modes is in consonance with the workload to be carried by each mode." There is a fourth function, i.e., Office of General Counsel, which is critical in all of the three modes. That office has assigned only two attorneys to review thousands of contract actions, as well as handle all other logistics problems and complicated large cases such as the flaps on [REDACTED] As an example, the number of funded contract actions reviewed in FY 1976 was 3,668, while unfunded actions totaled 2,441. It should also be pointed out that procurement dollars

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SUBJECT: ICIS Discussion Topics (AIUO)

represented by these actions (even excluding national programs) represents one-half of the Agency's annual budget for other than personnel costs. The contract review by OGC is critical to insure that required clauses (security and other) are properly drawn and incorporated, and that the contract meets current legal and regulatory requirements. I believe a check with other agencies would reveal much greater allocation of resources to the function of legal support for the procurement function, and suggest that the application of manpower to the legal function may be a suitable subject for consideration if we are looking at the entire process.

4. (U) Competition vs Security

The writer has been involved with the IC Staff in preparation of a general policy statement on procurement which will be signed by the DCI and promulgated to the entire intelligence community. The statement emphasizes the importance of competition and broadening the base of industrial contractors used by the community. It also establishes reporting requirements directed toward facilitating measurement of progress on objectives. The Admiral's emphasis on competition is being carried out in actions by the Agency Contract Review Board and by the various requirements units. While agreeing that the DCI's objective is worthwhile and consistent with procurement law, there are certain attendant problems which must be considered:

a. Adding a new contractor to the stable of contractors, when compartmented clearances are required, requires dropping an equivalent number of clearances to be consistent with the Admiral's current direction. 7

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SUBJECT: ICIS Discussion Topics (AIUO)

b. Competitions (which involve compartmented clearances) require involvement of several contractors and even providing the contractor a copy of the request for proposal or inviting them to a bidders conference requires establishment of new facility and personnel clearances and dropping of existing clearances.

c. Directorate representatives sitting as members of the Agency Contract Review Board have stated that certain acquisitions have a level of sensitivity/classification which will not permit competition. A possible solution has been suggested to them, i.e., identification of such items and appropriate documentation to the DCI for Head of Agency approval to handle those specific actions on a sole-source basis.

d. The emphasis on competition should also be considered as a part of the ICIS deliberation on paragraph 3(c) on staffing. The competitive process requires more time on the part of technical officers in preparation of specifications and statements of work as well as in establishing evaluation criteria and the actual process of evaluating contractor proposals. Time is required for holding meaningful discussions with contractors in the competitive range and additional effort is necessary on the part of cost analysts as they may be asked to examine proposals of all contractors in the competitive range.

5. (U) Contract Numbering System

The DD/S&T-DEG contracting team has surfaced a problem on the Agency's contract numbering system which it feels may tend to compromise Agency association classification. The Office of Logistics has developed an interim solution to this problem; however, since the problem has been raised and is current, it is surfaced for ICIS information. Attachment 2 is the DD/S&T memorandum on this subject.

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SUBJECT: ICIS Discussion Topics (AIUO)

6. (U) FOIA

Many Agency contracts are written for which the association of CIA with the contracts is unclassified notwithstanding the fact that the contract may require work, reports and hardware which are Top Secret/Codeword. The schedule of such unclassified contracts must use certain language descriptive of the work to be performed. It also identifies the security classification of the work and provides information on contractor security requirements. These contracts, as unclassified documents, must be provided upon request to any party making a request under the Freedom of Information Act. This is a problem in the sense that contractors doing highly classified work for CIA are easily targeted by the opposition. It even allows the opposition to prioritize its targets since Top Secret/Codeword projects will quite naturally be of greatest interest.

Yes  
~~NO~~7. (U) Contract Information Systems

The DD/S&T has developed an automated system of storing and retrieving information on its contracts which is identified as STEPPES. This system includes all DD/S&T contracts including national programs which are compartmented in a file identified as SPA. The Office of Logistics also has developed a management information system which includes all Agency-funded contracts (not national programs). Much of the information in the two systems is duplicative; however, the respective programs are significantly different as are the purposes of the systems.

Yes

The lack of a single system for all contracts posed problems during the period when the Senate and House Committees were submitting frequent inquiries and prevents ready preparation of reports on the total Agency procurement process.

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Attachments

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27 SEP 1977

MEMORANDUM FOR: Chief, Procurement Management Staff, OL

FROM: James H. McDonald  
Director of Logistics

SUBJECT: Security Staff Augmentation and Role  
and Responsibilities of OL/SS

REFERENCES: (a) Mult adsee memo dtd 16 Sept 77 fm  
A-DCI, subject: Comprehensive Review  
of Responsibilities for Industrial  
Contracts and Industrial Security  
(OL 7 4256)

(b) Memo dtd 22 Sept 77 to A-DDCI fm  
A-DDA, subject: Comprehensive Review  
of Responsibilities for Industrial  
Contracts and Industrial Security  
(OL 7 4256a)

(c) Memo dtd 19 Sept 77 to D/L fm C/SS/OL,  
subject: Security Staff Augmentation  
(OL 7 4234)

1. The Acting DCI, in referent (a), established the framework and principles for a survey of the industrial security and contracting function in this Agency. Referent (b) nominated you as the representative of OL.

2. Referent (c) addresses a series of problems and conflicting roles and responsibilities from an industrial security standpoint. I am inclined to agree with Jerry that there are often conflicting responsibilities as well as ill-defined ones in this area. I also agree that the creation of a 20-man industrial security audit team to review and monitor the work implemented by a much smaller security staff puts the cart before the horse. A better division of assets seems more desirable.

OL 7 4361

SUBJECT: Security Staff Augmentation and Role and  
Responsibilities of OL/SS

3. When the Survey Group is established and a chairman appointed, it is my desire that you present the viewpoint outlined in Jerry's memo to the group for its consideration and review before final recommendations are made.



James H. McDonald

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19 SEP 1977

MEMORANDUM FOR: Director of Logistics

FROM: [REDACTED]

Chief, Security Staff, OL

SUBJECT: Security Staff Augmentation (U)

1. Action Requested: This memorandum contains a recommendation for your approval.

2. Background: (C) As a result of the Boyce-Lee case, the focus of the Director of Central Intelligence has centered on the Agency's Industrial Security Program. The Director of Security has deployed ad hoc security survey teams to conduct comprehensive inspections of certain industrial facilities for the purpose of determining whether the contractor is properly implementing the security measures pursuant to the obligations he undertakes when he accepts a classified contract. Paralleling this effort the Office of Security is developing certain other measures designed to upgrade and strengthen security in the industrial area, i.e., polygraphing key contractor personnel, establishing a Personnel Review Panel relative to industrial clearance cases, as well as establishing a permanent security audit branch. The latter group would replace the ad hoc survey teams. It is also understood that the DCI has approved the additional personnel which will allow the Office of Security to undertake these assignments.

The Director of Security has strongly implied that the Agency security officer having cognizance over an industrial facility where discrepancies are found shares a responsibility for the existence of such a situation. Currently there are approximately [REDACTED] contractors who come within the purview of the Office of Logistics Industrial Security Program. Although the security classification of a majority of our contracts is at the Secret level, a significant number are at the Top Secret/Sensitive Compartmented Information level. The professional resources available to assist in conducting and administering the Industrial Security Program amounts to four

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SUBJECT: Security Staff Augmentation (U)

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professionals at Headquarters [REDACTED]  
[REDACTED] officers assigned to the contracting teams.

3. Staff Position: (C) It is reasonable to assume the developments noted above will affect the operation of the Industrial Security Program in several ways.

Present staffing does not permit the inspection of all contractors annually. It is recognized that certain contractors due to the sensitivity of the work they are performing should be more closely monitored than present resources permit.

The scrutinizing efforts of the Security Audit Group can only result in the Staff being tasked to both account for as well as remedy deficiencies which may be uncovered. It would be preferable if the Staff were in a position by more frequent contact with a contractor to ensure that security standards are being maintained and procedures were being properly complied with. It is not too inconceivable that at some point the industrial security inspectors could be outdistanced (if not outnumbered) by the "checkers" once the Security Audit Program is underway.

The present intense focus on contractor facility security acts to ignore another area of vital importance in the Industrial Security Program. Requiring equal attention although frequently overlooked, is the continued need for the services of knowledgeable industrial security officers at the Headquarters level who are responsive to Agency technical officers and contracting officers on security procedures relative to the various types of procurement actions. Clearly, the industrial security coin is two-sided and both deserve our best efforts.

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A corollary consideration in the administration of the Industrial Security Program are the problems present by indistinct channels for the command and control of personnel assets. A case in point are the two SMS/DDS&T security officers located [REDACTED] respectively, who exercise security control over Agency contractors where certain sensitive compartmented information is involved. These officers have no reporting responsibility to this Staff. This situation is peculiar only to the [REDACTED]

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Perhaps a less exasperating problem but one which presents some concern is the situation in the OD&E Contract Team.

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SUBJECT: Security Staff Augmentation (U)

It appears that the security officer there serves several masters. Officially, he is on the Table of Organization of the Chief, OD&E Security Staff, but has reporting responsibilities to this Staff on security matters pertaining to [REDACTED] contracts. We understand that he also handles certain National Program contracts or contracts which require access to National Program information. There is also some evidence of his involvement in bigot listed activities. A like situation also exists with the security officer of the ORD Contract Team. His primary function is deluted due to his additional ORD area security duties. It is not enough to depend on the contracting officer and the contract team security officer to determine when an activity should come under the cognizance of this Staff. To do so allows for the creation of too many grey areas and invites the potential for a flap. The high visibility industrial security matters currently enjoys would suggest that some revamping of functions and responsibilities may be in order.

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In this regard the question may be raised as to what this Staff's actual relationship should be to the security officers assigned to the contract teams. Do we have a direct responsibility for all their actions with respect to contractors or should it be limited to providing security policy, guidance and support from Staff resources? The degree of control which realistically can be exercised by the Chief, Security Staff, and the breadth of his span of control would appear to be fundamental to this issue. The answers to these questions would have a bearing on the Staff's responsibility for ensuring that adequate staff is made available to perform the tasks assigned. If additional personnel are approved, this will allow more responsibility and control to be placed in the OL/SS and will allow more time to be devoted by contract team security officers to the initial stages of the procurement process where it is felt increased attention is needed.

4. Recommendation: (C) That the Director of Logistics (1) review the role and responsibilities of this Staff to determine whether realignment of functions may be in order, and (2) favorable consideration be given to increasing the staff by three professional security careerists, adding another security careerist to the [REDACTED] augmenting the staff clerical personnel with two clerk/stenographers and adding a full-time clerk/stenographer (security assistant) [REDACTED]

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3 November 1977

MEMORANDUM FOR: ICIS Task Force Members

FROM:

[REDACTED]  
Deputy Director of Medical Services

SUBJECT:

Study Material - Commercial Systems and  
Audit Division's (CSAD) Participation in  
the Procurement Process (A/IUO)

(A/IUO) Attached is a copy of the contribution of

[REDACTED] Office of Finance, in response to paragraphs  
3d, e, and f. As indicated in [REDACTED] paper, CSAD's  
audit schedule for the six months ended 30 September 1977  
is available for study in my office in Room 1D4061, Headquarters.



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ICIS TASK FORCE WORKING PAPER

THE ROLE OF COMMERCIAL SYSTEMS & AUDIT DIVISION  
(CSAD), OFFICE OF FINANCE IN THE AGENCY'S  
PROCUREMENT PROCESS

1. (A/IUO) The Commercial Systems and Audit Division (CSAD) of the Office of Finance plays an important role in the day to day procurement processes of the Agency. This component of the Agency should not be confused with the Audit Staff of the Inspector General's Office which is responsible for the post-audit of all Agency activities, including the procurement process. CSAD is a part of ongoing daily activities while the Audit Staff acts in an oversight capacity.

2. (S) The major responsibility of CSAD is to assure that in cooperation with Agency contracting officers, the Agency gets the best possible goods and services at prices which are equitable both to contractors and the Agency. This involves major support to the contracting officers of the Procurement Division, Office of Logistics as well as to certain other contracting officers who have procurement teams in OSO, ORD, ODE, DDI and OTS. Activities of CSAD and its auditors include (1) services prior to the award of contracts (2) field audits of contracts and (3) participation and cooperation in Office of Logistics procurement policy determinations.


3. (A/IUO) The audit activities of CSAD are outlined briefly as follows:

A. Services Prior to Award of Contracts

1. Surveying Contractors' Internal Controls and Accounting Practices including a review of their Accounting Systems, Financial Position and Costing Practices.

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2. Analyzing Contractors' Cost Proposals
  3. Providing Accounting Counsel to Contracting Officers
  4. Advising the Agency Contract Review Board on Proposals
- B. Field Audits of Contracts
1. Reviewing Contract Documents
  2. Auditing Cost-type, Fixed Price Incentive and Fixed Price Redeterminable Contracts
  3. Auditing Overhead Expenses
  4. Providing Liaison with Defense Contract Audit Agency
  5. Providing Accounting Counsel to Contracting Officers on Contract Settlement
- C. Participating in Office of Logistics Activities by Attending Procurement Officers and Procurement Policy Panel Meetings
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5. (U/AIU0) A recent development in government contracting is the formation of a Cost Accounting Standards Board which is chaired by the Comptroller General of the United States. As a result of the activities of the Board, most large contractors are required to submit comprehensive "Disclosure Statements" relative to their cost accounting systems. Consequently, CSAD is becoming more involved in policing the Cost Accounting Standards Board's promulgations and standards. This is requiring more audit time and will be ☐ an area of expanding coverage for CSAD auditors.

6. (U/AIU0) Another recent development in procurement is a "Truth in Negotiation" law which requires that when a negotiated contract exceeds \$100,000 the contractor must be willing to make available to the contracting agency all the facts upon which it based its price quotation. Current law provides for audit of this data for the purpose of recovering any excessive profits caused by the use of defective or inaccurate pricing data. CSAD is involved in this type audit because on occasion there may be a real "payoff" in following up on such contracts.

7. (A/IU0) A further development which has occurred within the Agency is the determination that there will be greater competition in Agency procurement. In instances where "sole source" procurement was generally accepted we may now have two or three or more contractors submitting proposals which require analysis.

8. (S) Two branches of the Commercial Systems and Audit Division provide support to the Office of Logistics in its procurement activities.

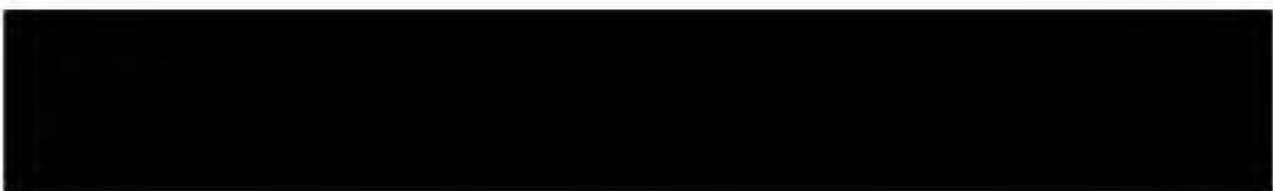
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9. (U/AIU0) Auditors perform pre-award surveys for the purpose of assuring the contracting officer of the financial capability and responsibility of a proposed contractor and also to determine that the cost-accounting system of the contractor will appropriately accumulate the cost data required on a proposed contract. "Interim audits" (while contract performance is in progress) are performed when possible or necessary and "final audits" are performed prior to the final cost or price determination and the closing of a contract.

10. (S) During the year ended 30 September 1977, CSAD (exclusive of the auditors assigned to teams) completed the following:

Financial and Accounting Systems Surveys  
Audits of Fixed Price Redeterminable and  
Incentive Contracts  
Interim Cost Audits  
Final Reports on Cost Type Contracts  
Overhead Determinations  
Reviews of DCAA Determined Overhead Rates  
Analyses of Cost Proposals

TOTAL REPORTS ISSUED

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11. (S) As of 30 September 1977 CSAD had on hand [REDACTED] contracts and 269 task orders totalling [REDACTED] Unaudited claims were approximately [REDACTED]

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12. (U/AIU0) CSAD's audit schedule for the six months ended 30 September 1977, which reveals the magnitude of the audit task, is on file in the Office of the Chairman of our Task Force. The schedule for the period 1 October 1977 to 31 March 1978 will be made available in the near future.

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4 November 1977

MEMORANDUM FOR: Chairman, ICIS Task Force

K1A FROM:

[REDACTED]  
ICIS Task Force  
Logistics Representative

SUBJECT: Paragraphs 3(d), (e), and (f) of A-DCI  
Memorandum dtd 16 Sep 77, Subject: Comprehensive Review of Responsibilities  
for Industrial Contracts and Industrial  
Security

1. Specific paragraphs identified in the subject query whether the Directors of Logistics and Security, and the Chief of the Audit Staff: (a) maintain sufficient oversight, (b) have sufficient access to continuing information to make reasoned judgments, and (c) whether there exists sufficient on-site reviews, inspections and audits at Headquarters and field levels for functions for which they are held responsible by Agency regulations. This memorandum identifies the responsibilities for which the Director of Logistics is responsible (having to do with the three contracting modes) under CIA regulations and discusses existing overview, access and inspection.

2. Headquarters Regulation [REDACTED] (Attachment 1) states that "The Director of Logistics will exercise all delegable procurement authority of the Director of Central Intelligence as otherwise specifically delegated by the Director." It goes on to state that such procurement will be accomplished in general conformity with the procedures and standards by which Federal procurement is conducted by the General Services Administration or the Department of Defense as evidenced respectively by the Federal Procurement Regulations (FPR) and the Armed Services Procurement Regulations (ASPR) as they now exist or may be amended. A revision to this HR, which is still

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SUBJECT: Paragraphs 3(d), (e), and (f) of A-DCI Memorandum  
dtd 16 Sep 77, Subject: Comprehensive Review of  
Responsibilities for Industrial Contracts and  
Industrial Security

in coordination, will state that Agency procurement will be accomplished to the maximum practicable extent, in accordance with the ASPR except in those areas such as acquisition of ADPE, where the FPR is applicable for all Agencies. Copies of the ASPR are in the hands of all procurement units and Defense Procurement Circulars (DPC), which provide current update to ASPR, are distributed to all procurement activities. Since the Procurement Division in Office of Logistics (OL) buys ADPE, that organization is the only unit maintaining a current FPR. Procurement Notes (copies provided to Chairman ICIS as Attachment 2) issued by the Director of Logistics (D/L) provide direction to the contracting activities on Agency procurement policy. Specific written delegation of procurement authority (available at various procurement activities and Procurement Management Staff (PMS), OL) are issued to the chiefs of the various elements.

3. The principal of "management by exception" is basic to operation of the procurement activity with the several contracting elements executing their procurement responsibility autonomously in accordance with their delegation of procurement authority. The exception to this autonomy is that any new procurement action or contract amendment expected to be [REDACTED] or more in value, and overruns of [REDACTED] and 15 percent must be reviewed by an Agency Contract Review Board which is advisory to the D/L and operates in accordance with HR [REDACTED] (Attachment 3). This board does not review or challenge requirements established by technical officers but does review all aspects of the planned procurement in terms of good procurement practice and compliance with applicable laws and regulations. 25X1 25X1 25X1

4. The D/L has also directed that the PMS/OL "Perform periodic reviews for the D/L of the several decentralized contracting teams, [REDACTED] and the Procurement Division, OL." This direction is included in Logistics Instruction 1-15 (Attachment 4). The Agency Audit Staff reviews all contract team operations annually, and the results of these inspections are fed back to

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SUBJECT: Paragraphs 3(d), (e), and (f) of A-DCI Memorandum  
dtd 16 Sep 77, Subject: Comprehensive Review of  
Responsibilities for Industrial Contracts and  
Industrial Security

the D/L. Additional checks and balances or reviews occur as representatives of the Logistics and Procurement Law Division of Office of General Counsel (OGC) review all contract actions, and representatives of the Commercial Systems and Audit Division (CSAD) of Office of Finance perform cost/price analyses and audit of proposals and contracts. While these functions are advisory to the contracting officers in the execution of his responsibilities, the CSAD reports through administrative channels any action of the contracting officer which ignores their recommendations and has negative impact on Government interest.

5. The D/L is also charged by HR [REDACTED] with various responsibilities necessary for implementing and ensuring adherence to the policy and standards pertaining to industrial contractual arrangements established by the Director of Security (D/Sec). The Security Staff in OL and security representatives assigned to each of the decentralized contracting elements review contract actions expected to include classified elements to ensure compliance with D/Sec requirements. These security representatives, in addition to reviewing contracts and providing advise and counsel to contracting officers, perform inspections of contractor facilities and maintain records of contractor facility and personnel clearances. 25X1

6. An additional management tool utilized in management of contracts executed under the authority of delegations from the D/L is the OL Contract Information System (CONIF). Data is input to this system with production reports issued to all contracting elements monthly which provide ready reference to contracting officers on important elements of the contract process.

7. One important aspect of the overall Agency system is the fact that boiler plate contract clauses (mandatory ASPR and Agency clauses) are prepared by the PMS/OL in coordination with OGC which are included as a part of every contract and which may not be modified without approval.

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SUBJECT: Paragraphs 3(d), (e), and (f) of A-DCI Memorandum  
dtd 16 Sep 77, Subject: Comprehensive Review of  
Responsibilities for Industrial Contracts and  
Industrial Security

8. In summary, the D/L believes that he does have sufficient oversight of the discharge of functions for which he is held responsible under Agency regulations. There is sufficient access to continuing information to make reasoned judgments as to how functions are being discharged, and there are sufficient on-site reviews, inspections, and audits.

9. Noting the affirmative response in paragraph 8 above, it should also be noted that discussion in this paper refers only to two of the three modes which ICIS has been asked to consider. While the OL provides contracting officers to the contracting elements in the National Programs, it does not set procurement policy for those elements nor does it monitor in any way their performance. A discussion of the differences between the two systems of contracting is included in a paper entitled, "CIA Dual Delegation" which was prepared for submittal to the Executive Advisory Group. That paper has previously been provided to you as Exhibit 6 to my memorandum dated 4 November 1977.

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**ADMINISTRATIVE**  
**INTERNAL USE ONLY**

INSTRUCTION NO.  
LI 1-15

LI 1-15  
ORGANIZATION

Revised 1 March 1976

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SUBJECT: Mission and Functions, Procurement Management Staff, OL

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1. MISSION

The Procurement Management Staff, Office of Logistics (PMS/OL), shall assist the Director of Logistics (D/L) in discharging his responsibilities as the Agency senior procurement officer. This staff will serve as a policy, procedural, and coordinating mechanism on behalf of all Headquarters and field contracting units having delegated authority from the D/L, will perform certain functions of a common-concern nature, will establish and conduct external liaison, and will exercise staff cognizance

ATINTL

[REDACTED]

2. FUNCTIONS

The Chief, PMS/OL, shall:

a. Function as the principal staff officer to the D/L in all matters relating to those procurement functions which have been delegated to the D/L. This shall include the following: ✓

- \*(1) Serve as principal advisor and consultant to the Chairman, Agency Contract Review Board, and assume the duties of the chairman in his absence. Provide services as a secretariat to the Board.
- \*(2) Serve as the senior Agency representative on all governmental and industrial committees concerned with procurement.
- (3) Prepare special studies, reports, and inquiries, as required by the D/L.
- (4) Serves as Agency principal representative to the Office of Federal Procurement Policy and act as focal point for all required interface.

**ADMINISTRATIVE**  
**INTERNAL USE ONLY**

b. Provide administrative oversight for those Agency procurement functions which have been delegated to the D/L and coordinate such other procurement functions as directed from time to time. These shall include the following:

- \*(1) Serve as the Chairman, Procurement Policy Panel.
- \*(2) Interview and recommend potential candidates for inclusion in the procurement career system. Serve as a member of the Logistics Career Service Board to develop recommendations on rankings of personnel, assignments, and training and review recommendations of subpanels.
- (3) Provide administrative support to the D/L and procurement officers by means of monthly statistical reports, special reports, and ad hoc inquiries based upon information contained in the CONIF procurement data bank.
- (4) Perform periodic reviews for the D/L of the several decentralized contracting teams, [REDACTED] and the Procurement Division, OL.
- (5) Provide administrative support and direction to the Chief, [REDACTED] who will report to the D/L via the Chief, PMS/OL. The Chief, PMS/OL, will establish and maintain a coordinating role between [REDACTED] and all Headquarters contracting teams and directorate elements associated with the procurement functions.
- (6) Develop and monitor the implementation of procedures and practices designed to increase the efficiency of the procurement system and procurement personnel.
- (7) Develop, manage, and administer "The Project Officer in the Contract Cycle" course.

c. Exercise contracting officer authority on special programs, as directed by the D/L.

d. Provide services of common concern to those elements of OL, the several decentralized contracting teams, and other Agency components concerned with procurement including the following:

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- (1) Provide a point of contact for contractors attempting to establish a business relationship with the Agency through the procurement process.
- (2) Act as the focal point for actions involving
  - (a) patents and rights-in-data arising from Agency contracts,
  - (b) preparing and maintaining current contract general provisions, clauses, and forms,
  - (c) reporting the overall status of Government-furnished property,
  - (d) obtaining ratings under the priorities and allocations system, and priority assistance as requested,
  - (e) processing contractor requests for access to the ASTIA (DOD) system, and
  - (f) Agency compliance with Equal Employment Opportunity requirements in industrial contracts.
- (3) Develop and implement CONIF as a management information system including requirements and procedures, conduct of training courses, and preparation of manuals, etc.
- (4) Maintain and operate the D/L terminal utilized for the CONIF System.
- (5) Procure novelty searches for inventions claimed by Agency employees and pursue, as appropriate, the patent procedure through coordination with patent attorneys, the Patent Office, and the requesting component.
- (6) Administer and provide management support for training courses for technical personnel who are involved in the procurement process.
- (7) Review and analyze proposed and enacted legislative, executive, judicial, and administrative requirements in the Federal procurement field to determine applicability to Agency procedures.

ADMINISTRATIVE

INTERNAL USE ONLY

- (8) Review and recommend action on requests for approvals to contract with educational institutions and monitor compliance with Agency policy in this area.

e. Supervise and administer the Procurement Management Staff, OL, as necessary.

\*Those functions identified in the previous sections with an asterisk shall be handled personally by the C/PMS and may not be delegated without the approval of the D/L.

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MICHAEL J. MALANICK  
Director of Logistics

ADMINISTRATIVE

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Aubrey -

I hope the attached comments are useful to you.

The only conclusion I can reach at this time is that the Audit Staff would require more auditors to do the work we think should be done. It is not feasible to guestimate a number at this time. The conclusions of the Task Force would have a direct bearing.

With respect to recommendations, I think it would be premature to make any. I would prefer to wait until the discussion phase is completed.

I'll be back from my trip on Wednesday AM. If I can be of any help then, please call.

Jerry

3d

The Audit Staff does not have sufficient resources to review the procurement processes to the extent we consider necessary. We previously reported our scope of audit. This paper identifies areas where we believe the audit processes should be strengthened.

The list may not be complete. The task force may identify other areas where additional audit is required.

1. Discuss and review technical evaluations with Contract Officer Technical Representative (COTR).

Note: This procedure has been followed in the past but only on a very few occasions.

- a. What homework has the COTR done to identify contractors in the field? Has the work been done before? Is another component actively engaged in a similar contract?
  - b. Does the price proposed seem reasonable?
  - c. Are there competitive proposals that can be used for comparison?
  - d. Has the COTR reviewed the cost proposal by cost element?
2. Review process of determination of adequacy of proposals.
  3. Review for duplication of effort.
  4. Review processes leading to determination of using Agency personnel vs. contracting out.
  5. Visit contractors to answer questions:
    - a. Did technical direction contribute to the large number of changes?

- b. To what extent were the changes necessary to meet program objectives?
  - c. Could the changes have been avoided?
  - d. Was the Agency attempting to do more than was required?
  - e. How do contractor personnel feel about type of contract negotiated?
  - f. Would an administrative contracting officer placed at the plant have increased efficiency?
  - g. Are security procedures satisfactory?
- 6. Determine degree of compliance with EEO requirements.
  - 7. Evaluate controls over GFE used in Agency and National Programs?
  - 8. Determine extent of training in the contracting area.
  - 9. Coordinate audits of contracts containing GFE to Property Supply Office (PSO) records. National Program contracts do not specifically state what GFE will be furnished in most cases. There is usually a standard paragraph referring to the PSO.
  - 10. Review the cause(s) of overruns.
  - 11. Review for compliance with OSHA laws.
  - 12. Test and review the procedures related to potential conflicts of interest in the procurement processes.
  - 13. EDP Software.
    - a. Review the need for the EDP software system development.
      - (1) Examination of the feasibility study for

proper justification, cost estimates and approval.

- (2) Review hardware requirements for the proposed software system for cost, and the software impact on existing hardware.
  - b. Examine the justification for using a contractor rather than doing the programming in-house.
  - c. Define the problem in sufficient detail in the specification in order that the Request for Proposal can receive wide range of potential bidders.
  - d. Review the monitoring by the technical officer during the progress of the contract.
    - (1) Are contractor's programming techniques structured or module.
    - (2) What language is the contractor using?
    - (3) Test contractor's results to insure that program meets core storage constraints, CPU time requirements, and program specifications.
    - (4) Document contractor software with programmer remarks, flow charts, systems design comments.
  - e. Evaluate the test results of the newly developed software during simulation and parallel phase.
14. EDP Hardware.
- a. Review the justification for acquiring by lease or purchase EDP hardware.



- b. Examine the detail proposal submitted to vendors.
- c. Review the selection panel decision and justification for the hardware selected including the panel decision not to go through GSA.
- d. Review the test results performed by the contractor and the test conducted by the center personnel. This includes both bench test at the factory and the on-site testing.
- e. Evaluate the hardware impact on the software requirements and vice versa.
- f. Examine the cost estimates in the original proposals and the actual cost of acquiring the hardware. Determine if actual cost is in accordance with GSA schedules.
- g. Review management decision regarding the purchase or continued leasing of hardware, especially when the GSA procedures recommend procurement.

3e

As previously reported, the Audit Staff has not been denied access to information. Nevertheless some comments are appropriate.

Audit Staff is responsible for the audit of some major programs. A few of the programs are so large as to suggest a need for continuous monitoring (by audit) rather than just a periodic review. The benefits to be derived from continuous monitoring include:

- more timely opportunity to offer constructive comment
- better audit scheduling to minimize interference during critical operation periods
- better allocation of audit resources.

The need for continuous monitoring has been perceived but not pursued. The need has not been pursued primarily because of a lack of audit resources.

There is an additional area relating to access of continuing information. The decision making processes in the Directorate for Science and Technology culminate in a quarterly review during which the DDS&T or his deputy give final approval before an action is initiated. Audit has very limited access to this process. There generally is little written material related to the process which is available for subsequent review by audit or other independent groups. Again the lack of audit resources has limited our pursuit of this matter. The process will warrant attention however as audit becomes increasingly concerned about program results.

As previously reported, the General Accounting Office has identified three elements of audit, the third of which is concerned with results. The process calls for a determination whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the Agency has considered alternatives which might yield desired results at lower cost. Regardless of who audits for program results, the evidence should be available for review.

3f

Audit experience to date indicates a need for on-site field reviews at the field level. Our experience in this area has been limited. But the results of our experience have been positive. Again, as we become more concerned with economy and efficiency and program results, the benefits to be derived from visits to contractor plants should become more manifest.

Audit should become more aware of such things as the:

- relationship between the Government and the contractor
- extent of compliance with laws required of Government contractors but which are not examined for compliance by DCAA auditors
- extent of compliance with industrial security practices.

4a

Paragraph 4a can best be answered by Security.

Audit does retain a responsibility to report the effectiveness of agreed upon industrial security procedures to management.

4b

Audit is satisfied that there is a proper distribution of responsibility between the functions performed by the DCAA auditors and the Audit Staff.

Audit Staff is concerned that many officials of the Agency do not understand the role of the two audit functions. To correct this situation, the Audit Staff conducts a continuing informal educational program.

The Audit Staff in 1974 discussed the alternative means by which National Program Contracts could be audited. There have been no changes. The subject should be considered again.

For many years there has been limited coordination between the Audit Staff and the DCAA auditors. Audit Staff reviewed DCAA reports. On occasion there has been some discussion on topics of mutual concern. On a few occasions the results of the liaison between the two audit groups resulted in cost savings to the Government.

As both audit staffs apply greater resources to program results audits, the need for increased liaison will grow.

4d

The Audit Staff is not in a position to document an answer to the question. There has never been an audit conducted to address the issue. Based on observations, however, the answer is no.

The CONIF and STEPS system come closest to addressing the issue. But neither system was designed to enable the Agency to speak with one voice to the contractor.

ICIS TASK FORCE WORKING PAPERS  
OFFICE OF COMMUNICATIONS

(C) Office of Communications' responsibility for negotiating the establishment of communications facilities at Industrial Contractor sites is contained in HR [REDACTED] Attachment A

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K1A (C) There are currently [REDACTED] Agency sponsored communications centers located at Industrial Contractor sites. Cryptographic equipments and materials are provided and controlled by the Office of Communications in accordance with national policy direction of the United States Communications Security Board (USCSB). Attachment B. The selection of equipment, installation criteria, area of control and security safeguards are the same as those prescribed for CIA staffed domestic communications centers.

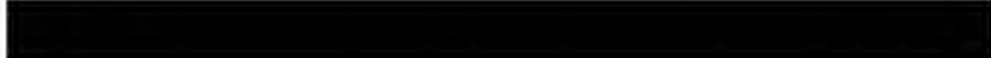
(C) New requirements to establish communications centers at contractor sites are received by OC from the sponsoring Agency component. The request specifies the type of communications service required, the security level of material to be handled, cost center information, and the name and clearance status of contractor employees with whom OC will coordinate the installation. OC, in coordination with the Office of Security, conducts an initial site survey at the contractor facility to verify that suitable space is available to install



the communications center. Arrangements for any necessary structural renovations, power requirements and special security considerations are coordinated with appropriate contractor personnel during the initial site survey. The sponsoring Agency component is advised of the results of the survey and is provided a cost estimate covering communications equipment, circuitry, installation and related costs.

(C) Contractor communications centers supporting joint CIA/NRO projects are managed by a small staff of OC personnel assigned to the Office of SIGINT Operations (OSO), DDS&T. All operational, security, training, equipment installation and maintenance support is provided by that staff. Non-NRO related contractor communications centers receive similar operational, security, training and technical support from

X1A

 All contractor communications centers are provided a copy of OCHB 10.10.10 (KW-7 Operating Instructions) and a copy of OCHB 10.80.4 (COMSEC Material Control System). Attachment C. These documents are supplemented by procedural guides and message preparation instructions unique to a particular project or type of traffic being handled by the contractor center.

(C) All contractor communications centers, with one exception, are staffed by personnel in the direct employ of the company involved. The personnel are selected by the contractor Security Officer and are subject to a background investigation conducted by OS. Cryptographic clearances are granted to contractor personnel based on a favorable OS background investigation and compliance with USCSB and CIA/OC policy. Office of Communications staff officers train contractor personnel in the operation and security implications of cryptographic equipments and in the use, control and destruction of cryptographic materials. Periodic and unannounced inspections are conducted at each contractor site to ensure compliance with security standards and to inventory cryptographic equipments and materials.

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2. RESPONSIBILITIES

~~SECRET~~

The Director of Security has already set in motion programs designed to carry out his industrial security responsibilities. This interim report on industrial security ~~was written~~<sup>therefore</sup> in the midst of a fluid security management situation. An Industrial Security Branch has been formed and has already begun to conduct security audits of contractor facilities, replacing the ad hoc security teams which had begun the audit program. As a matter of first priority it is ~~also~~ drafting a consolidated Industrial Security Manual. It will also act as an Office of Security focal point for providing advice and guidance to the Industrial Security Officers (ISO's) assigned to contracting components; establishing a formal training program for ISO's; and creating a centralized reference index of security information on contractor facilities and contractor personnel involved with all Agency contracting components.

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Security personnel in the industrial computer security field and compartmented security policy and access control areas have been augmented.

These additional security capabilities will obviously play an important role in industrial security and must be read into any assessment of the Agency Industrial Security Program as it now exists.

A. POLICY STANDARDS and PROCEDURES

By regulation, the Director of Security has the function of developing and publishing uniform security policy and standards for the establishment and maintenance of the security of Agency industrial contract arrangements. He also has the regulatory function of providing security guidance to unspecified national intelligence programs.

Security policy and standards for the contracting programs conducted by the Office of Logistics and by the contracting teams have been developed by the Security Staff of the Office of Logistics and published, after review and approval by the Director of Security, in the form of two industrial security manuals. The manuals are essentially the same, varying only in that one goes to contractors where association with the Agency is classified and one to contractors where it is not. Copies are given to contractors and incorporated into a contract by reference.

1. Policy and Standards

-2-

Where Office of Logistics, contracting teams and national level programs enter into contracts involving SI/TKH material, they follow policy and standards developed by the Special Security Center of the Office of Security and published, after review and approval by the Director of Security, in an industrial security manual specifically tailored to Agency contracting. This manual is designed for the use of Agency employees. It is not given to contractors but pertinent portions may be furnished to contractors for their guidance and for inclusion in contracts where necessary.

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National level programs obtain the balance of their guidance concerning industrial security policy and standards from the Special Security Center in the form of the [REDACTED] Industrial Security Manual which, after review and approval by the Director of Security, was published in order to establish guidelines, philosophy and requirements for safeguarding [REDACTED] information in the possession of contractors. Copies of the manual are incorporated into contracts by reference.

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Underlying the physical security standards in the [REDACTED] and SI/TKH manuals is the USIB Physical Security Standards Policy Statement which provides "minimum standards" applicable to contractors. A representative of the Director of Security served on the USIB committee which produced these standards.

At the present time, the manuals contain some discrepancies in standards or requirements but, more importantly, each manual contains language like the following:

"Specific requirements ... will vary from contractor to contractor ... the proper combination of techniques and the degree to which they will be employed can best be determined during the ... Security Representatives ... visits and inspection .... There are, however, certain ... minimum standards which remain reasonably constant."

This language obviously envisions permitting the Industrial Security Officer to make independent judgments on-site consonant with such considerations as cover. To the extent, however, that these judgments or tradeoffs vary from accepted standards they are reported to the appropriate Program Security Desk or on to the Chief of the appropriate Security Staff along with a request for approval. They do not have to be reported to the Office of Security unless SI/TKH material is involved (where the Special Security Center must sign off), or where in the judgment of the respective security staffs, a significant policy question requires the attention of the Director of Security.

-3-

While only one of the three regulatory responsibilities given above contains the word "uniform", an attempt to achieve uniformity by means of a consolidated Industrial Security Manual is being undertaken by the newly created Industrial Security Branch as a matter of first priority levied by the Director of Security.

ATINTL 2. PROCEDURES

[REDACTED]

(2) Functions. The Director of Security will:

(b) obtain and evaluate through investigation, polygraph interview, and liaison contact with other United States agencies, pertinent information regarding personnel for employment, assignment or association with the Agency.

[REDACTED]

(2) The Director of Security is responsible for:

(c) Conducting security investigations and evaluations and furnishing the Director of Logistics with precontract and contract industrial security approvals.

The standards for security investigation and evaluation for contractors involved with the Office of Logistics and the contracting teams are contained in HR [REDACTED] while those for national program contractors and contractors in all three modes where SI/TKH is involved are contained in DCID 1/14. While there are differences, they are not substantial and the Director of Security has prepared a formal guide for the Industrial Security Desk in the Clearance Division which brings the two standards into synchronization. (The Office of Security formerly had two completely separate evaluation units to handle national programs and Office of Logistics requests.)

[REDACTED]

(2) The Director of Security is responsible for:

(b) assigning career security officers to the Office of Logistics and to directorates where contracting officers are assigned for duty.

Prior to assignment to the Office of Logistics, contracting team, or national program, candidates for these positions are screened by Panels and the Office of Security Career Board (each of which contain officers who have served extensively in one or more of the three contracting modes) and nominees for assignment are sent to the Director of Security for his personal concurrence.

The key assignments that the Director of Security makes are the Chief, Logistics Security Staff and the Chief, OD&E Security Staff with the Chief/DDS&T Security Management Staff playing an important role at a different level. Carefully selected, highly experienced security officers, these individuals act for the Director of Security in implementing policy and making the industrial security system work.

What formal reporting is required flows from the Industrial Security Officer to his component. Communications with the Director of Security consist of seeking guidance from or passing information to him on an incident or case-by-case basis. The interchange is flexible, fast and informal. As experienced officers, the Security Staff Chiefs can go to any portion of the Office of Security for appropriate guidance or go directly to the Director of Security. Conversely, the Director of Security confers directly with the Staff Chiefs when he wishes to give them guidance or obtain information.

This same type of relationship exists between the Staff Chiefs and the Industrial Security Officers. Security advice and guidance is usually sought on a case-by-case basis and given in the same vein.

The Industrial Security Officer is an active participant in the classified contracting team concept in all three modes. The more conversant he is with the technical aspects of his contracts, the more effective he can be in working up security plans and providing guidance. The relationships he creates with his contractors go a long way toward determining how much feedback and knowledge the contracting components and the Director of Security obtain regarding incipient or active security problems -- it must be a carefully nurtured, professional relationship, establishing a working rapport of mutual problem solving. Once established, this relationship fills an informational and timeliness need which no formal inspection system can ever provide.

A formal training program for Industrial Security Officers will be activated by the newly established Industrial Security Branch. At this point in time, training is almost exclusively of the on-the-job variety given by experienced Industrial Security Officers.

Fitness reports are prepared by the component in which the Industrial Security Officer serves. Promotions remain the province of the Director of Security as does rotation, although the latter is always in consultation with the component involved.

HR [REDACTED]

(a) Functions. The Director of Security will:

(f) make necessary inspections, investigations and reports to assure proper maintenance of security ...

ATINTL

HR [REDACTED]

(2) The Director of Security is responsible for:

(d) Performing physical security inspections when considered necessary, consistent with the primary inspection responsibility of the Director of Logistics ....

In the Office of Logistics and contracting team areas, the Industrial Security Officers attempt to conduct annual inspections of those contractor facilities under their respective cognizance which possess or produce classified material. In the national programs, no formal inspection cycle is established, it being felt that, given the manpower limitations, the visits made in the course of problem solving between contractors and Industrial Security Officers provides reasonable oversight. All three modes feel that current manpower precludes conducting thorough, frequent inspections.

ATINTL **B. OVERSIGHT**

HR [REDACTED]

(2) Function. The Director of Security will:

(u) determine the effectiveness with which security programs and policies are being accomplished and institute or recommend, as appropriate, improvements where needed.

The Director of Security does not have a formal, established feedback system to tell him how everything is going. He does have an informal system which appears to work well in what is often called operational security. This usually starts with the contractor himself or the cognizant Industrial Security Officer. Flaps and serious policy problems of all sorts in physical, technical, and personnel security areas flow rapidly through the security network providing information and opportunity for the Director of Security to be aware of deviations, make reasoned judgments and reach timely decisions. The system is fast, flexible, free of protocol, and quick responding.

It is at a level below this - the day to day decision making level - that the system lacks consistent oversight. Much of this type of information will be provided in a thorough manner, but at a much slower pace, by the new Industrial Security Branch in the course of security audits of sensitive contractor sites. Nothing, however, will provide a satisfactory substitute for active participation by the security offices directly involved in the contracting process.

The Industrial Security Staff Chiefs and Desk Chiefs feel the need to get out more and observe the system in action. They feel more spot checks are needed. They feel constrained, however, by the need to be available to respond to immediate needs as they arise. Much of this inability to participate more actively is attributed to a lack of manpower. This perceived lack may be caused by insufficient manpower investment within



~~the~~ the contracting components. It may be a result of inefficient workload distribution and lack of interchangeability due to such things as necessary compartmentation, unnecessary compartmentation, cover, and physical dispersal of officers who, if collocated, could pool office coverage and permit greater participation in on-site contractor security activities. It is probably a combination of both insufficient manpower and inefficient utilization of resources.

Assessing this problem, determining an effective manpower level, recommending realignments or adjustment, and then, through adequate oversight, continuing to test the validity of the industrial security program structure presents the primary security management challenge to both the Director of Security and the contracting components.

### C. ENFORCEMENT

Under a delegation from the Director of Central Intelligence, the Contracting Officer is responsible for all aspects of contract administration, including enforcement of the contract provisions. In order for him to exercise this enforcement responsibility in the security portions of the contract the Contracting Officer must have knowleable, continuing oversight of the contractor facility which will identify for him security policy deviations and procedural deficiencies. Since the Industrial Security Officer at the component procurement level and the Office of Security audit teams are in the best position to provide this oversight, the responsibility to do so should be clearly placed with the Director of Security. To meet this responsibility, the Director of Security will need clear regulatory recognition of an overall coordination responsibility for the Industrial Security effort.

While this arrangement will not, literally, give prime responsibility over enforcement of security standards prescribed for CIA contractors to the Director of Security, it will accomplish the desired goal by insuring adequate oversight over contractor security performance. All deviations and deficiencies would be noted, discussed with the contractor, recorded and forwarded to the responsible Contracting Officer for enforcement action.

## II. RESPONSIBILITY

### A. Policy, Standards and Procedures

The Director of Communications is responsible by regulations for negotiating the establishment of communications facilities at industrial contractor sites, in coordination with Agency components concerned.

Cryptographic equipments and materials are provided to contractor facilities by the Office of Communications in accordance with national policy direction of the United States Communications Security Board (USCSB). The selection of equipment, installation standards, area of control, and security safeguards are the same as those prescribed for Agency staffed domestic communications centers.

All contractor communications centers, with one exception, are staffed by personnel in the direct employ of the contractor involved. Cryptographic clearances are granted to contractor personnel based on a favorable background investigation by the Office of Security and compliance with USCSB policy. Office of Communications staff officers train contractor personnel in the operation and security implications of cryptographic equipments and in the use, control, and destruction of cryptographic materials. All contractor communication centers are provided operational documents applicable to the particular cryptographic system and ~~cryptographic~~ materials for which they are responsible. These documents are supplemented by procedural guides unique to a particular program or type of material being handled by the contractor center.

2 B. OVERSIGHT

Management of contractor communications centers is shared by two staffs. STATINTL

Centers supporting Agency programs are managed by the [REDACTED]

[REDACTED] with oversight by the Director of Communications. Centers supporting national programs are managed by the Communications Support Staff, Office of SIGINT Operations, DDS&T. An informal exchange of information exists between these staffs. *AND UNIFORM COMMUNICATIONS SECURITY STANDARDS ARE IN FORCE AT ALL CONTRACTOR CENTERS.* ~~concerning management of contractor communications centers.~~ However, the Director of Communications does not have regulatory responsibility for ~~the coordination~~ <sup>OVERSIGHT</sup> of communications security ~~oversight~~ at centers supporting national programs.

Periodic and unannounced inspections are conducted at all contractor sites to ensure compliance with communications security standards and to inventory cryptographic equipments and materials. Inspections are scheduled at intervals not to exceed six months. An interview is held with each of the contractor employees assigned communications duties and pertinent security requirements are reviewed. Any security deficiency that cannot be resolved during the visit is noted in the inspection report and prompt follow-up action is taken.

Of primary concern to OC is the number of contractor personnel authorized access to cryptographic systems and materials. A recent decision to require the presence of two cryptographic cleared personnel during operation of the centers has required the granting of additional clearances. At the present time, [REDACTED] contractor personnel have access to Agency-sponsored contractor centers. STATINTL

OC has received approval of a plan to consolidate centers located in nearby areas and to provide message service to several contractors from one central location. Roving staff communicators working out of the consolidated centers will provide service, on a scheduled basis, to low volume contractor

centers within a 50-75 mile radius. [REDACTED] staff communicator positions have been approved to man the consolidated centers and provide roving communicator coverage. A task force composed of OC, OS, OSO, OD&E, OWI, and OSI personnel has been established to implement the plan. Implementation will be phased over a two-year period with a target date for completion by the end of FY-79. Once the plan is implemented, all contractor communications centers will be under the direct control of Agency staff personnel.

STATINTL

D. ORGANIZATION

Industrial Security Officers (ISO's) are currently assigned to two major industrial security programs. One program involves Agency funded classified contracts and is under the technical purview of the Chief, Office of Logistics, Security Staff (C/OL/SS) with respect to advice, guidance and coordination. The other program involves non-Agency funded classified contracts and is under the purview of the Chief, Office of Development and Engineering, Security Staff (C/ODE/SS).

ATINTL To monitor the security of Agency funded contractual arrangements, the Director of Logistics has a Security Staff at Headquarters and a Security Officer [REDACTED] In addition, activities of the Security Officers assigned to the decentralized contracting teams of the Office of Research and Development, Technical Service, SIGINT Operations, and the NFAC are under the technical security cognizance of the C/OL/SS. The ISO's monitor the security provisions written into Agency funded contracts. They receive their policy and procedural guidance from the C/OL/SS.

The non-Agency funded program arrangement was formalized in 1962 by the establishment of the National Reconnaissance Office (NRO) which provides

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[REDACTED]

groups or projects report to the C/OD&E/SS but are located with and work for various project managers. One of these groups, the Development and Engineering Group (DEG) spends part of its time on Agency funded programs and part on non-Agency funded activities. All these individuals serve as ISO's as well as project and operational security officers.

ATINTL

There are [REDACTED] who do not report through either the C/OL/SS or the C/OD&E/SS. These ISO's report directly to the Security Management Staff/DDS&T at Headquarters. There is no formal interface with the Security Officer [REDACTED] or the C/OL/SS with respect to the assignment of inspection responsibilities, the processing of personnel security approvals, or the submission of inspection reports. This unique situation should be corrected and is discussed further in the section of this report relating to Resources.

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A newly created Industrial Security Branch, with a T/O of [REDACTED] professional security officers, will, by conducting periodic audits, provide the Director of Security and the contracting components with an independent evaluation of the security posture at all sensitive contractor sites. In addition, it will act as an Office of Security focal point for providing security advice and guidance to contracting components; establish an Industrial Security Officer's training program; and seek to establish uniform industrial security policies. However, this Branch will have no responsibility for the conduct of periodic inspections.

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[REDACTED]

With respect to the ISO's under the cognizance of the C/OL/SS, industrial security inspections of the contractor facilities are conducted and written reports submitted. Each of the Industrial Security Officers is allocated his own "stable" of contractors for which he has primary security inspection responsibility.

As a general rule, there is no duplication of visits to the same contractor facility. However, in certain instances, when special projects are involved, exceptions may be made to the desired practice of having contractor interface with only one ISO relative to security policy matters.

On the non-Agency funded programs, after the initial security requirements have been implemented by a contractor the ISO is in periodic contact with the contractor for the purpose of monitoring the security of the project and he periodically visits the contractor facility. However, in-depth physical and procedural security re-inspections are not generally undertaken and therefore no formal security inspection reports are submitted.

All project ISO's in this program clearly recognize that periodic security inspection and the submission of formal inspection reports are desirable, however the day-to-day activity of handling the operational security requirements of various projects precludes such re-inspection. Therefore the lack of manpower has precluded the initiation of a formal re-inspection program.

At the larger and often most sensitive contractor sites various ISO's assigned to these programs, plus those assigned to the Agency funded programs visit the same contractor and levy security requirements relative to different contractual arrangements. Currently there are [REDACTED] ISO's assigned to non-Agency funded programs and they have cognizance of [REDACTED] contractor facilities. Of the [REDACTED] contractor facilities, approximately [REDACTED] also have Agency funded programs with ISO's who have separate contractual security responsibilities.

One cognizant Industrial Security Officer per contractor facility or two per contractor facility, representing the Agency-funded and national program interests, is highly desirable.

Finally, the current goal relative to inspection of contractor facilities is an annual visit for the purpose of conducting updated inspections or to close out contractors with whom contracts have been completed or settled. This annual re-inspection cannot be realized because of manpower constraints and corrective action with regard to the need for additional personnel is also discussed in relation to ~~resources~~.



Security Performance Standards

Any examination of security performance by Agency contractors must begin with a review of performance standards and direction provided to the contractor. These standards and directions have their origin in security policy promulgated by the Director of Security through internal regulations incorporated in various security manuals and ultimately levied on the contractor thru the medium of the Agency's industrial contractor<sup>S</sup>. Such direction may, in accordance with contract terms, also be given orally by CIA Industrial Security Officers (ISO's) having cognizance for specific contracts or contractors. Discussion in this area requires that the overall role of the Office of Security with respect to the Agency's industrial security activity be considered as well as existing security practices for both Agency sponsored and national programs.

ATINTL

[REDACTED] reflect that the Director of Security is responsible for developing Agency policy and standards for the establishment and maintenance of security of Agency industrial contractual arrangements and that, consistent with the primary inspection responsibility of the Director of Logistics, the Office of Security will perform physical security inspections when deemed necessary. [REDACTED] states that the Director STATINT of Logistics will implement and insure adherence to the security policy and standards for industrial contractual arrangements published by the Director of Security. (There is no reference, per se, to the role of the DDS&T to whom the DCI has given special procurement authority.) The Office

of Security:

- a. Assigns professional ISO's to the two industrial security programs.
- b. Has established the criteria for the security approval of contractor employees.
- c. Conducts investigations and grants appropriate security approvals.
- d. Provides through the Special Security Center guidance relative to the establishment and accreditation of contractor SCI facilities.
- e. Provides a data bank of approved SCI facilities and personnel approved for SCI access.
- f. Provides through the Clearance Division a means for the certification of industrial security access approvals.
- g. <sup>Pro</sup>~~Provides~~ provides guidance relative to the security of computer operations through the Information Systems Security Group.

However, there is <sup>no</sup>~~not a~~ focal point component within the Office of Security whose duties encompass the discharge of the Director of Security's responsibility to develop and publish Agency security policy and standards for the establishment and maintenance of Agency industrial contractual arrangements. In the absence of such a focal point in the Office of Security with the necessary authorities and expertise in the industrial security field, industrial security policy and standards are sometimes generated by the Security Staffs of OL and OD&E, somewhat of a "tail wagging the dog" arrangement. The more serious consequence of this practice is some lack of uniformity in standards and direction provided to our contractors.

Security policy and standards for Agency <sup>funded</sup> ~~sponsored~~ programs have been developed by the Security Staff of the Office of Logistics and published, after review and approval by the Director of Security, in the form of two industrial security manuals. The manuals are essentially the same, varying only in that one goes to contractors where association with the Agency is classified and one to contractors where it is not. Copies are given to contractors and incorporated by reference into a contract.

Where Agency sponsored programs and national level programs enter into contracts involving SI/TKH material, they follow policy and standards developed by the Special Security Center of the Office of Security and published, after review and approval by the Director of Security, in an industrial security manual specifically tailored to Agency contracting. This SI/TKH manual is designed <sup>only</sup> for the use of Agency employees. It is not given to contractors but pertinent portions may be furnished to contractors for their guidance and for inclusion in contracts where necessary.

National level programs obtain the balance of their guidance concerning industrial security policy and standards from the Special Security Center in the form of the [REDACTED] which, after review and approval by the Director of Security, was published in order to establish guidelines, philosophy and requirements for safeguarding [REDACTED] information in the possession of contractors. Copies of the manual are incorporated into contracts by reference.

Underlying the physical security standards in the [REDACTED] and SI/TKH manuals is the USIB Physical Security Standards Policy Statement which provides "minimum standards" applicable to contractors. A representative of the Director of Security served on the USIB committee which produced these standards.

At the present time, the manuals contain some discrepancies in standards or requirements but, more importantly, each manual contains language like the following:

"Specific requirements ... will vary from contractor to contractor ... the proper combination of techniques and the degree to which they will be employed can best be determined during the ... Security Representatives ... visits and inspection .... There are, however, certain ... minimum standards which remain reasonably constant."

"Protection ... can be accomplished in several ways by utilizing various security techniques and the degree to which they will be emphasized can best be determined during ... visits ... by security officers representing acceptable standards which remain reasonably constant..."

"There is no set formula for the physical protection of [REDACTED] information ...."

The language quoted above envisions permitting the ISO's to make independent judgements on site consonant with such considerations as cover, but because of a lack of specificity, creates an obstacle to enforcement of contract terms. A further equally serious problem results when different security manuals are provided to one contractor. Mr. Lapham, Agency General Counsel, noted in his 12 August 1977 memorandum to the ADDCI that both the manuals entitled "Security Requirements for Contractors" and the [REDACTED] used respectively for Agency sponsored programs and national programs, were in use [REDACTED] Notwithstanding the fact that these two manuals are not alike in all respects, [REDACTED] with apparent Agency ISO acquiescence, elected to observe the [REDACTED]

requirements even in the performance of Agency contracts.

The lack of uniformity in security standards and the fact that the SI/TKH manual cannot be provided to contractors has been recognized and a uniform security manual suitable for incorporation by reference into classified contracts and distribution to contractors is in preparation.

Less than specific language heretofore included in various security standards has permitted a good deal of flexibility to ISO's in their administration of contractor security programs. Even with the new, uniform, more specific single security manual it is envisioned that provisions must remain which allows ISO's to grant waivers or make changes as necessary for accomplishment of contract objectives. Such waivers or changes should be reported in writing to the Director of Security and reviewed on a continuing basis.

3 ~~IMPLEMENTATION~~

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### Resources

For the purposes of this discussion the resources for administering the Agency Industrial Security Program fall primarily into two categories; those manpower and dollar resources required by the various Agency elements to properly administer an effective industrial security program at the contractor facilities, and those required by the contractors to effectively perform their security responsibilities. Before proceeding with a discussion of the impact of this additional security emphasis on resources, it is important to understand the current alignment of them, particularly in the manpower area.

### Current Industrial Security Command and Staff Relationships

The two major industrial security programs, one involving Agency funded classified contractual activity which generally is under the technical purview of Chief, Logistics Security Staff with respect to advice, guidance and coordination; the other program involves non-Agency funded contractual activity which is under the purview of Chief, Office of Development and Engineering, Security Staff.

The officers assigned to the two programs are professional security employees who provide industrial security support to Agency contracting offices, Agency technical representation, and representatives of the contractor. However, there are a number relative to policy and procedures in the two programs.



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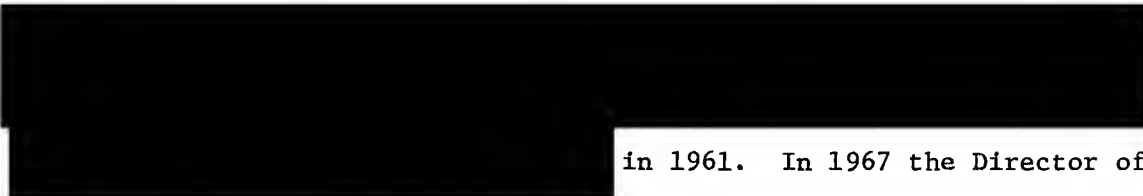
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Office of Logistics, Security Staff

The Office of Procurement and Supply, the predecessor of the Office of Logistics, formed a one man security staff in March of 1953 to provide industrial security support for classified procurement activity of this Agency. By 1956, the OL Security Staff (OL/SS) had expanded to five professional security career officers. An increase of the Agency's

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in 1961. In 1967 the Director of Logistics began implementation of a policy of decentralized procurement by establishing the first of a number of contracting teams composed of several contracting officers, an auditor and an ISO within various Agency components. Today, the C/OL/SS has ISO's assigned to his staff to provide security support to OL and to components not covered by contracting teams. In addition there are 's assigned to contracting teams. The total professional manpower dedicated to this effort is (see attachment - Current Support of Agency Funded Contracts).

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Security Management Staff, O/DDS&T

In the early 1960's resident security officers were assigned to a number of the Office of Scientific Intelligence (OSI) contractor facilities to monitor the security of external analysis SI/TK level projects. The continuing projects in this category are The security officers for these projects continued their assignment to OSI and responded

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to the direction of the Headquarters OSI security officer until June 1970 when the latter's slot was abolished. Direction of these two security officers who are located [REDACTED]

[REDACTED] was then assigned to the Chief, Security Management Staff (C/SMS/DDS&T). Since that time, they have taken over the security responsibility for other Agency funded contractor facilities when SI/TK level activity is conducted. During this period, some of these projects were transferred from OSI to the Office of Weapons Intelligence (OWI). In November 1976, both of these offices, OSI and OWI were transferred to the Intelligence Directorate, now NFAC. The current DDS&T manpower allocated to this effort is 2.~(see attachment - Current Support to Agency Funded Contracts)

A major portion of the additional manpower augmentation is for [REDACTED] Industrial Security Officers to be assigned to <sup>functional</sup> ~~component~~ industrial security elements (Agency funded programs) and the Security Staff of ODE (non-Agency funded programs). The proposed manpower resources for these activities are presented in Tables 1 and 2. These increases are absolutely essential if we are to administer an effective industrial security program which insures that the contractor is responding to our security standards and performance requirements. These increases will improve our day-to-day visibility into the contractor's security performance against the more comprehensive standards the contractor is being directed to enforce.



Increased espionage efforts in the U.S. of the Soviets and other foreign intelligence services has been a topic of constant discussion over the last few months. The revelations of the Boyce/Lee case and Presidential concern about the security of the U.S. telecommunications links have made it evident that a change in our industrial security posture is required. We can no longer just be concerned about physical personnel and document security but must take an aggressive approach in the areas of Counterintelligence and Audio Countermeasures. The D/OS should be instructed to proceed to develop and mount an ACM program and increase his liaison activities in the industrial CI field with the FBI. It is estimated that a program for ACM inspection of [REDACTED] sensitive CIA and the BI-annual inspection of [REDACTED] other contractor facilities would cost:

- a. equipment
- b. travel
- c. personnel (6)

Although the start-up cost in equipment for this effort is high, the potential for detecting or preventing a disaster worse than the Boyce/Lee case is evident.

We anticipate contractual cost increases as the contractors initiate improved enforcement of their industrial security responsibilities, particularly during the implementing phase when they are bringing their facilities and security procedures up to a level consistent with the more demanding security requirements we are imposing. This will, of course,

result in a moderate increase in the cost of goods and services in most instances, which must be borne by the sponsoring elements. The Agency's contracting authorities will insure that the contractor's charges for security performance continue to be reasonable.

It is not possible to make accurate estimates of the level of these ~~added~~<sup>CONTRACTUAL</sup> costs until we have had an opportunity to study cost data submitted by contractors. As stated earlier, the added costs for increased security performance will be relatively high during the implementation phase, then stabilize at a lower level after existing deficiencies are corrected. After the ~~implementation~~<sup>IMPLEMENTATION</sup> phase we would not expect this added cost to exceed about 1% of the contract cost, although it should be pointed out that contract value is not necessarily a direct measure of security performance costs.

We unanimously believe that the additional security protection afforded is adequate justification for the expenditure of the additional manpower and dollar resources involved.

**Secret**



*Industrial Contracts  
and Industrial Security*

*Final Report*

*Prepared by the*

*Task Force on Industrial Contracts  
and Industrial Security*

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